

PERAC AUDIT REPORT



Greater Lawrence Sanitary District Employees' Contributory Retirement System



JAN. 1, 2001 - DEC. 31, 2003 / PERAC 03: 10-105-06



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

July 29, 2005

The Public Employee Retirement Administration Commission has completed an examination of the **Greater Lawrence Sanitary District Employees'** Retirement System pursuant to G.L. c. 32, s. 21. The examination covered the period from January 1, **2000** to December 31, **2003**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner James Ryan who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



Greater Lawrence Sanitary District Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

1. Board Attendance and Signatures:

A review of the Board meetings from January 26th, 2000 to January 26th, 2005 disclosed that there were eleven monthly meetings in which the minutes were not signed. Furthermore, during the five-year period in which Board minutes were reviewed, it was noted that one Board member only attended 58% of the meetings. This resulted in an attendance rate well below the 75% minimum considered reasonable for the period evaluated.

Recommendation:

Attendance at Board meetings is a paramount obligation that must be seriously considered by every Board member. It is the Board's responsibility to counsel members who do not regularly attend meetings that they jeopardize their fiduciary duty to the retirement system. The Board should consider adjusting the scheduling of Board meetings in order to better accommodate its members. In extreme conditions, it may be necessary to take appropriate action with members who fail to maintain minimum attendance requirements. Also, the Board should designate either a member or secretary to sign the minutes.

Board Response:

The Board member in question has committed to attend most, if not all, future meetings. Also, the unsigned Board meeting minutes are in the process of being reviewed and signed.

2. Invalid General Ledger (GL) Account:

PERAC has discontinued the use of GL account numbers 4828, and 4829 (Increase/Decrease in Amortization of Fixed Income Securities) since calendar year 1999. PERAC changed the valuation method for fixed income securities to a market valuation (see PERAC memo #46/1999). This was done in order to be consistent with methods prescribed by the Government Accounting Standards Board. The Retirement Board's use of these account numbers to record annual market value fluctuations results in an incorrect amount on line item "Excess Income to the Pension Reserve" within the Investment Income page of the Annual Statement.

Recommendation:

Immediately discontinue recording market value fluctuations of fixed income securities to account numbers 4828 and 4829. Instead, use account numbers 4886 and 4887 (Unrealized Gain/Loss) to record fixed income securities market value changes.

Board Response:

The use of general ledger account numbers 4828 and 4829 has been discontinued.

Greater Lawrence Sanitary District Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

3. Annuity Savings Account:

The Annuity Savings Account does not balance to the Membership File Supplemental Schedule for each year of the four-year period under audit. The end of year overstated variances fluctuated between 6% and 13% of the ending Supplemental Schedule balances. The auditor observed that a large portion of the overstated variance related to incorrect journal entries being made to transfer the member's annuity savings account balance to the annuity reserve account upon retirement (Please refer to Finding #4 – Annuity Reserve Account).

Recommendation:

Prepare a journal entry to adjust the Annuity Savings account to properly reflect member retirements (Please refer to Finding #4 – Annuity Reserve Account) and the correct Supplemental Schedule balance. The Board Administrator should ensure that each members' ending balance on the 12/31/03 Supplemental Schedule accurately reflects the members' Annuity Savings card balance. Any variances should be corrected in the TACS system.

Board Response:

Please see response #4. The additional portion of the variance has been identified and will be corrected.

4. Annuity Reserve Account:

A review of the transactions affecting the balance in the Annuity Reserve Account over the four-year period from January 1, 2000 to December 31, 2003 indicated that the account balance was understated by \$160,051.13 or approximately 53% of the required balance. This was a direct result of a year 2000 member retirement not being journalized and a year 2001 retirement being journalized in reverse of the required adjustment. The recommended correcting entry noted below should properly adjust the Annuity Reserve and Annuity Savings Account balances.

Recommendation:

During the April 2005 monthly closing, prepare a journal entry to adjust the GL balance of the Annuity Reserve and Annuity Savings accounts to properly record the year 2000 and 2001 member retirements as follows: a debit to the Annuity Savings Account and a credit to the Annuity Reserve Account for \$160,051.13.

Board Response:

The recommended entry was made and is reflected in the 2004 Annual Statement.

Greater Lawrence Sanitary District Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

5. Annual Statement:

A review of the year 2000-2003 Annual Statements indicated that there were numerous dollar value discrepancies between the investment income line items reported on Annual Statement page 6 and their corresponding supporting schedules accompanying the filing of the Annual Statement. The majority of the variances were within the realized and unrealized gain and loss accounts. Some of these variances were caused by investment gains and losses being journalized by netting the gain or losses instead of grossing gains and losses as required by GAAP (Generally Accepted Accounting Principles).

Recommendation:

Due care should be observed when preparing the Annual Statement which reports on the financial condition of the Greater Lawrence Sanitary District Retirement System. Supporting schedules on the Annual Statement should accurately reflect their corresponding year - end GL balances. Investment gains and losses should not be netted when recorded in the GL.

Board Response:

The method in which investment gains and losses are recorded in the general ledger has been changed to properly reflect investment activity.

Final Determination:

PERAC auditors will follow-up in six (6) months to ensure appropriate actions have been taken on all findings.

Greater Lawrence Sanitary District Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2003**

	FOR THE PERIOD ENDING DECEMBER 31,			
ASSETS	2003	2002	2001	2000
Cash	\$114,996	\$213,268	\$316,056	\$137,576
Short Term Investments	0	0	0	0
Fixed Income Securities (at book value)	4,143,116	4,177,856	4,059,806	4,318,263
Equities	3,087,345	2,170,843	2,516,116	3,087,646
Interest Due and Accrued	21,447	26,580	33,165	39,617
Accounts Receivable	5,607	5,696	9,486	7,550
Accounts Payable	(17,150)	(16,290)	(8,267)	(9,496)
TOTAL	<u>\$7,355,360</u>	<u>\$6,577,954</u>	<u>\$6,926,361</u>	<u>\$7,581,156</u>
FUND BALANCES				
Annuity Savings Fund	\$2,236,630	\$2,224,487	\$1,969,969	\$1,762,880
Annuity Reserve Fund	195,293	34,071	139,304	223,515
Pension Fund	1,333,562	1,430,066	1,624,271	1,785,155
Military Service Fund	0	0	0	0
Expense Fund	0	0	0	0
Pension Reserve Fund	<u>3,589,875</u>	<u>2,889,330</u>	<u>3,192,818</u>	<u>3,809,606</u>
TOTAL	<u>\$7,355,360</u>	<u>\$6,577,954</u>	<u>\$6,926,361</u>	<u>\$7,581,156</u>

Greater Lawrence Sanitary District Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2003**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2000)	\$1,631,082	\$246,006	\$1,888,375	\$0	\$0	\$3,447,227	\$7,212,690
Receipts	198,081	6,981	9,883	0	62,923	362,378	640,247
Interfund Transfers	0	0	0	0	0	0	0
Disbursements	(66,283)	(29,472)	(113,103)	0	(62,923)	0	(271,781)
Ending Balance (2000)	1,762,880	223,515	1,785,155	0	0	3,809,606	7,581,156
Receipts	236,846	6,256	3,041	0	61,158	(616,788)	(309,487)
Interfund Transfers	57,520	(57,520)	0	0	0	0	0
Disbursements	(87,277)	(32,947)	(163,925)	0	(61,158)	0	(345,308)
Ending Balance (2001)	1,969,969	139,304	1,624,271	0	0	3,192,818	6,926,361
Receipts	199,741	3,584	11,025	0	67,365	(303,487)	(21,772)
Interfund Transfers	65,569	(65,569)	0	0	0	0	0
Disbursements	(10,792)	(43,248)	(205,231)	0	(67,365)	0	(326,636)
Ending Balance (2002)	2,224,487	34,071	1,430,066	0	0	2,889,330	6,577,953
Receipts	211,859	4,363	108,963	0	63,754	700,545	1,089,486
Interfund Transfers	(199,717)	199,717	0	0	0	0	0
Disbursements	0	(42,858)	(205,467)	0	(63,754)	0	(312,079)
Ending Balance (2003)	<u>\$2,236,630</u>	<u>\$195,293</u>	<u>\$1,333,562</u>	<u>\$0</u>	<u>\$0</u>	<u>\$3,589,875</u>	<u>\$7,355,360</u>

Greater Lawrence Sanitary District Retirement System

STATEMENT OF INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2003**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2003	2002	2001	2000
Annuity Savings Fund:				
Members Deductions	\$192,183	\$174,840	\$164,965	\$161,782
Transfers from other Systems	0	129	40,165	0
Member Make Up Payments and Redeposits	0	0	0	1,717
Investment Income Credited to Member Accounts	<u>19,676</u>	<u>24,773</u>	<u>31,716</u>	<u>34,583</u>
Sub Total	<u>211,859</u>	<u>199,741</u>	<u>236,846</u>	<u>198,081</u>
Annuity Reserve Fund:				
Investment Income Credited Annuity Reserve Fund	<u>4,363</u>	<u>3,584</u>	<u>6,256</u>	<u>6,981</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	2,119	2,119	2,119	2,119
Received from Commonwealth for COLA and Survivor Benefits	8,907	8,907	923	7,765
Pension Fund Appropriation	<u>97,938</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>108,963</u>	<u>11,025</u>	<u>3,041</u>	<u>9,883</u>
Military Service Fund:				
Contribution Received from Municipality on Account of Military Service	0	0	0	0
Investment Income Credited Military Service Fund	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:				
Expense Fund Appropriation	0	0	0	0
Investment Income Credited to Expense Fund	<u>63,754</u>	<u>67,365</u>	<u>61,158</u>	<u>62,923</u>
Sub Total	<u>63,754</u>	<u>67,365</u>	<u>61,158</u>	<u>62,923</u>
Pension Reserve Fund:				
Federal Grant Reimbursement				0
Pension Reserve Appropriation				0
Interest Not Refunded				0
Excess Investment Income	<u>700,545</u>	<u>(303,487)</u>	<u>(616,788)</u>	<u>362,378</u>
Sub Total	<u>700,545</u>	<u>(303,487)</u>	<u>(616,788)</u>	<u>362,378</u>
TOTAL RECEIPTS	<u>\$1,089,486</u>	<u>(\$21,772)</u>	<u>(\$309,487)</u>	<u>\$640,247</u>

Greater Lawrence Sanitary District Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2003**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2003	2002	2001	2000
Annuity Savings Fund:				
Refunds to Members	\$0	\$10,792	\$87,277	\$66,283
Transfers to other Systems	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>0</u>	<u>10,792</u>	<u>87,277</u>	<u>66,283</u>
Annuity Reserve Fund:				
Annuities Paid	42,858	43,248	32,947	29,472
Option B Refunds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>42,858</u>	<u>43,248</u>	<u>32,947</u>	<u>29,472</u>
Pension Fund:				
Pensions Paid				
Regular Pension Payments	118,197	121,284	90,166	78,295
Survivorship Payments	17,623	15,675	15,675	9,494
Ordinary Disability Payments	0	0	0	9,468
Accidental Disability Payments	29,897	29,897	29,897	(9,742)
Accidental Death Payments	0	0	0	0
Section 101 Benefits	0	0	0	0
3 (8) (c) Reimbursements to Other Systems	9,725	12,374	6,462	6,462
State Reimbursable COLA's Paid	28,855	24,849	20,639	17,951
Chapter 389 Beneficiary Increase Paid	<u>1,170</u>	<u>1,152</u>	<u>1,086</u>	<u>1,176</u>
Sub Total	<u>205,467</u>	<u>205,231</u>	<u>163,925</u>	<u>113,103</u>
Military Service Fund:				
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:				
Board Member Stipend	0	0	0	0
Salaries	21,062	20,892	21,799	20,975
Legal Expenses	0	0	0	0
Medical Expenses	0	0	0	0
Travel Expenses	665	1,495	658	782
Administrative Expenses	7,211	11,983	4,615	3,675
Furniture and Equipment	316	0	0	0
Management Fees	34,501	32,995	34,087	37,491
Custodial Fees	0	0	0	0
Consultant Fees	0	0	0	0
Sub Total	<u>63,754</u>	<u>67,365</u>	<u>61,158</u>	<u>62,923</u>
TOTAL DISBURSEMENTS	<u>\$312,079</u>	<u>\$326,636</u>	<u>\$345,308</u>	<u>\$271,781</u>

Greater Lawrence Sanitary District Retirement System

INVESTMENT INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2003**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2003	2002	2001	2000
Investment Income Received From:				
Cash	\$113	\$6,088	\$7,756	\$5,708
Short Term Investments	3,259	0	0	0
Fixed Income	219,832	245,161	271,707	239,950
Equities	36,846	28,903	24,750	21,659
Pooled or Mutual Funds	<u>0</u>	<u>0</u>	<u>0</u>	0
Commission Recapture	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL INVESTMENT INCOME	<u>260,050</u>	<u>280,152</u>	<u>304,212</u>	<u>267,318</u>
Plus:				
Increase in Amortization of Fixed Income Securities	0	0	0	198,495
Realized Gains	21,115	1,629	14	27,995
Unrealized Gains	904,373	0	0	274,440
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>21,447</u>	<u>26,580</u>	<u>33,165</u>	<u>39,617</u>
Sub Total	<u>946,935</u>	<u>28,209</u>	<u>33,179</u>	<u>540,546</u>
Less:				
Decrease in Amortization of Fixed Income Securities	0	0	0	(2,397)
Paid Accrued Interest on Fixed Income Securities	0	(799)	(1,779)	(2,636)
Realized Loss	(19,309)	(127,953)	(110,247)	(293,290)
Unrealized Loss	(279,028)	(718,206)	(753,529)	0
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(26,580)</u>	<u>(33,165)</u>	<u>(39,617)</u>	<u>(42,675)</u>
Sub Total	<u>(324,917)</u>	<u>(880,123)</u>	<u>(905,171)</u>	<u>(340,999)</u>
NET INVESTMENT INCOME	<u>882,069</u>	<u>(571,761)</u>	<u>(567,780)</u>	<u>466,865</u>
Income Required:				
Annuity Savings Fund	19,676	24,773	31,716	34,583
Annuity Reserve Fund	4,363	3,584	6,256	6,981
Military Service Fund	0	0	0	0
Expense Fund	<u>63,754</u>	<u>67,365</u>	<u>61,158</u>	<u>62,923</u>
TOTAL INCOME REQUIRED	<u>87,794</u>	<u>95,722</u>	<u>99,130</u>	<u>104,487</u>
Net Investment Income	<u>882,069</u>	<u>(571,761)</u>	<u>(567,780)</u>	<u>466,865</u>
Less: Total Income Required	<u>87,794</u>	<u>95,722</u>	<u>99,130</u>	<u>104,487</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>\$794,275</u>	<u>(\$667,483)</u>	<u>(\$666,909)</u>	<u>\$362,378</u>

Greater Lawrence Sanitary District Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$114,996	1.57%	100
Short Term	0	0.00%	100
Fixed Income	4,143,116	56.40%	40 - 80
Equities	3,087,345	42.03%	40
GRAND TOTALS	<u>\$7,345,457</u>	<u>100.00%</u>	

For the year ending December 31, **2003**, the rate of return for the investments of the **Greater Lawrence Sanitary District Retirement System** was 12.01%. For the five year period ending December 31, **2003**, the rate of return for the investments of the **Greater Lawrence Sanitary District Retirement System** averaged 4.36%. For the nineteen-year period ending December 31, **2003**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Greater Lawrence Sanitary District Retirement System** was 8.64%.

Greater Lawrence Sanitary District Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

The **Greater Lawrence Sanitary District Retirement System** submitted the following supplementary investment regulations, which were approved by PERAC on :

December 13, 1994

20.04(6) American Depository receipts denominated in U.S. currency and listed on the New York Stock Exchange, provided that the total of all such investments shall be considered part of the board's equity asset allocation and shall not exceed 15% of the total market value of the portfolio.

December 15, 1994

20.03(1) Equity investments shall not exceed 50% of the total book value of the portfolio at the time of purchase.

Greater Lawrence Sanitary District Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Greater Lawrence Sanitary District Retirement System** member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Greater Lawrence Sanitary District Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Greater Lawrence Sanitary District Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Greater Lawrence Sanitary District** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

October 12, 1989

Any new employee of the Greater Lawrence Sanitary District who are not required to have a physical examination under the jurisdiction of the Executive Director, shall be required to be examined by a physician or medical firm appointed by the Greater Lawrence Sanitary District Employees Retirement system. New Employees will be required to have a physical examination and a back x-ray. Said individuals shall submit receipts for reimbursement for any expense incurred if the retirement board is not directly billed for the examination. If any physical impairment is

Greater Lawrence Sanitary District Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

found they will be required to sign a waiver to the effect that this condition was existing prior to their employment with the Greater Lawrence Sanitary District.

Any new employee of the Greater Lawrence Sanitary District will be placed on probationary status for a period of ninety (90) days before being eligible for membership in the Greater Lawrence Sanitary District Employees Retirement System. New employees will have the option to buy back the probationary ninety (90) days through a payroll deduction system or through their own financial resources.

January 21, 1994

1. A part-time, temporary, or intermittent employee of the Greater Lawrence Sanitary District, to be eligible for the Greater Lawrence Sanitary District Employee Retirement System, will be required to work a minimum of thirty (30) hours per week and a minimum of one thousand five hundred sixty (1560) hours in any one (1) calendar year to earn creditable service for actual hours worked in that particular year.
2. Commissioners and Officers who have served or are presently servicing on the Greater Lawrence Sanitary District Board and are compensated earn one-half (1/2) year of creditable service for every year of service.

Greater Lawrence Sanitary District Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **PERAC** as of **January 1, 2003**.

The actuarial liability for active members was	\$4,676,639
The actuarial liability for retired members was	<u>2,425,806</u>
The total actuarial liability was	7,102,445
System assets as of that date were	<u>7,235,749</u>
The unfunded actuarial liability was	<u>(\$133,304)</u>
 The ratio of system's assets to total actuarial liability was	 101.9%
As of that date the total covered employee payroll was	\$2,065,959

The normal cost for employees on that date was 8.13% of payroll

The normal cost for the employer was 3.60% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum

Rate of Salary Increase: Varies by service

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2003

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2003	\$7,235,749	\$7,102,445	(\$133,304)	101.9%	\$2,065,959	-6.5%
1/1/2001	\$7,581,156	\$6,233,431	(\$1,347,725)	121.6%	\$1,870,122	-72.1%
1/1/1999	\$6,410,401	\$5,130,935	(\$1,279,466)	124.9%	\$1,714,888	-74.6%

Greater Lawrence Sanitary District Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Superannuation	1	1	0	0	1	0	1	1	1	1
Ordinary Disability	0	0	0	0	0	0	0		0	0
Accidental Disability	0	0	0	0	1	0	0		0	0
Total Retirements	1	1	0	0	2	0	1	1	1	1
Total Retirees, Beneficiaries and Survivors	13	14	14	14	15	15	16	17	18	21
Total Active Members	53	48	48	49	45	47	43	45	46	46
Pension Payments										
Superannuation	\$57,653	\$66,757	\$71,569	\$72,973	\$71,138	\$76,064	\$78,295	\$90,166	\$121,284	\$118,197
Survivor/Beneficiary Payments	4,854	4,854	4,854	4,854	4,854	4,854	9,494	15,675	15,674	17,623
Ordinary Disability	11,442	11,442	11,442	16,230	16,190	16,230	9,468	0	0	0
Accidental Disability	16,230	16,230	16,230	11,442	37,835	17,593	9,742	29,897	29,897	29,897
Other	<u>13,094</u>	<u>15,355</u>	<u>15,733</u>	<u>17,202</u>	<u>20,502</u>	<u>19,472</u>	<u>25,589</u>	<u>28,187</u>	<u>38,375</u>	<u>39,750</u>
Total Payments for Year	<u>\$103,273</u>	<u>\$114,638</u>	<u>\$119,828</u>	<u>\$122,701</u>	<u>\$150,519</u>	<u>\$134,213</u>	<u>\$113,103</u>	<u>\$163,925</u>	<u>\$205,230</u>	<u>\$205,467</u>

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